

Ann Butterworth - Morgan Keegan Comments to Revised "Guidelines for Interest Rate and Forward Purchase Agreements"

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To: "comptroller.web@tn.gov" <comptroller.web@tn.gov>
Date: 8/31/2009 11:06 AM
Subject: Morgan Keegan Comments to Revised "Guidelines for Interest Rate and Forward Purchase Agreements"

We appreciate the opportunity to make additional comments on the State's revised "Guidelines for Interest Rate and Forward Purchase Agreements." As noted in our previous comments, Morgan Keegan supports the State's efforts to ensure that Governmental Entities use derivative instruments in a prudent and responsible manner, and that officials of these Entities possess the requisite skill and knowledge to execute and maintain these instruments over their economic life. We have reviewed the revised State of TN Guidelines for Interest Rate and Forward Purchase Agreements. Other than what stands from our original comments, please find below two additional comments related to the Revised Guidelines:

Section IV A:

We understand and concur with the exemption of a Governmental Entity to appear before the Comptroller in person if the Governmental Entity meets certain competency criteria. The requirement outlined in A.2 appears to be somewhat limiting, especially as it relates to the requirement for the debt to have level principal amortization or level debt service. The other criteria outlined in Section IV A should be sufficient to ensure that a Governmental Entity possesses the necessary minimum qualification levels sought by the Comptroller, without imposing a somewhat arbitrary limitation related to the characteristics of the underlying bonds being hedged.

Section IV F:

Number 1. The requirement for a counterpart or CSP to have a stable rating is unclear as currently drafted. This can be rectified by keeping the language as drafted and have the requirement for a counterpart or CSP to have a MINIMUM rating of at least Aa3 or AA- with a stable outlook from at least 1 rating agency. Without the MINIMUM language, this would seem to exclude a AAA rated counterpart without a Stable outlook where it might qualify a AA- rated counterpart with a stable outlook, which does not appear to be the intent of this provision.

Please find below contact information should you have questions for Morgan Keegan regarding our initial or follow-up responses:

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Thank you again for the opportunity to comment on the proposed guidelines. Please respond to this e-mail verifying receipt.

Robert Hahne

Managing Director

Morgan Keegan & Company, Inc.

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